



GERALD A. SILVA
City Auditor

CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

April 30, 2003

Ms. Gillian Moran
Executive Director
Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California 94086

Dear Ms. Moran:

Transmitted herewith is our report on the audit of the balance sheets of the Santa Clara County Cities Association (SCCCA) as of June 30, 2001 and June 30, 2002 and the related statements of revenues, expenditures, and changes in reserves and fund balance for the years ended June 30, 2001 and June 30, 2002. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Sincerely,

Gerald A. Silva
City Auditor

GS:bh

Encl.

TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
BALANCE SHEET	
JUNE 30, 2001 AND 2002	2
STATEMENT OF REVENUES, AND EXPENDITURES	
FOR THE YEARS ENDED JUNE 30, 2001 AND 2002	3
STATEMENT OF CHANGES IN RESERVES AND FUND BALANCE	
FOR THE YEARS ENDED JUNE 30, 2001 AND 2002	4
NOTES TO THE FINANCIAL STATEMENTS	5
1. Purposes and Functions of the Organization	5
2. Summary Of Significant Accounting Policies	5
3. Related Organizations	5
4. Lease Commitments	5
5. Fixed Assets	6
6. Change In The General Administrator	6
7. Investment In The Local Agency Investment Fund	6
8. Fund Balance Reserves	6
MANAGEMENT COMMENT LETTER	7
EXHIBIT A	
COMMENTS AND RECOMMENDATION	8



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Santa Clara County Cities Association

We have audited the accompanying balance sheets of the *Santa Clara County Cities Association* (SCCCA) as of June 30, 2001 and June 30, 2002, and the related statements of revenues and expenditures, and changes in reserves and fund balance for the years ended June 30, 2001 and June 30, 2002. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SCCCA as of June 30, 2001 and June 30, 2002, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Gerald A. Silva, CPA
City Auditor

April 30, 2003

SANTA CLARA COUNTY CITIES ASSOCIATION

Balance Sheet

June 30, 2001 and 2002

	<u>2001</u>	<u>2002</u>
Current Assets		
Cash	\$12,773	\$12,638
Interest Receivable	0	377
Accounts Receivable	30	0
Prepaid Rent and Deposits	820	620
Other Current Assets - LAIF Funds	<u>58,489</u>	<u>43,971</u>
Current Assets	72,112	57,606
Fixed Assets		
Office Equipment	10,590	10,590
Less Accumulated Depreciation	<u><9,790></u>	<u><10,590></u>
Fixed Assets	<u>800</u>	<u>0</u>
TOTAL ASSETS	<u>\$72,912</u>	<u>\$57,606</u>
Liabilities, Reserves, and Fund Balance		
Accrued expenses	<u>\$842</u>	<u>\$1,142</u>
Reserves (see Note 8)		
Reserved for Operations	45,000	35,000
Reserved for Equipment Replacement	7,867	0
Reserved for Technology Advances	6,639	5,000
Reserved for Education/Speakers	<u>8,050</u>	<u>8,521</u>
Total Reserves	<u>67,556</u>	<u>48,521</u>
Fund Balance - Unrestricted	<u>4,514</u>	<u>7,943</u>
Total Liabilities, Reserves, and Fund Balance	<u>\$72,912</u>	<u>\$57,606</u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Revenues And Expenditures
For The Years Ended June 30, 2001 and 2002

	<u>2001</u>	<u>2002</u>
Revenues		
Contributions from		
Santa Clara County cities	\$40,005	\$40,005
Interest income	4,110	3,127
Other sources	<u>528</u>	<u>250</u>
Total revenues	<u>44,643</u>	<u>43,382</u>
Operating expenditures		
Office staff	34,083	28,200
Other professional services	2,149	2,187
Payroll taxes	2,782	2,491
Staff benefits	0	3,555
Payroll processing expenses	666	868
Bank service charges	55	0
Conference/Director's expenses	1,536	1,031
Depreciation	1,219	800
Dues and subscriptions	0	219
Equipment leasing	1,592	0
Hospitality	806	904
Internet services	507	613
Insurance	353	517
Maintenance and repairs	912	557
Office supplies	1,452	1,171
Postage and delivery	903	1,239
Printing and copying	434	1,110
Project and workshop support	0	933
Recognition	388	414
Rent	4,880	5,280
Telephone	564	585
Travel	<u>759</u>	<u>500</u>
Total operating expenditures	<u>56,040</u>	<u>53,174</u>
Operating Income <Loss>	<11,397>	<9,792>
Projects and Activities		
Membership Dinners		
Dinner collections	6,715	8,311
Dinner costs	<u>8,032</u>	<u>10,704</u>
SCCCA Directory		
Directory Income	1,013	1,349
Directory Production Costs	1,401	1,770
Other Projects/Programs		
Next Door Solutions to Domestic Violence	5,000	3,000
Anti-graffiti	<u>3,857</u>	<u>0</u>
Net loss	< <u>\$21,959</u> >	< <u>\$15,606</u> >

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Changes In Reserves And Fund Balance
For the Years ended June 30, 2001 and 2002

	<u>Reserve for Operations</u>	<u>Reserve for Equipment Replacement</u>	<u>Reserve for Technology Advancement</u>	<u>Reserve for Education/ Speakers</u>	<u>Fund Balance</u>	<u>Total Reserves and Fund Balance</u>
Balances as of June 30, 2000	\$45,000	\$7,867	\$5,000	\$13,050	\$21,089	\$92,006
Prior year adjustment					2,023	2,023
Fund transfers			1,639	(5,000)	3,361	--
Net loss	_____	_____	_____	_____	<u>(21,959)</u>	<u>(21,959)</u>
Balances as of June 30, 2001	45,000	7,867	6,639	8,050	4,514	72,070
Fund transfers	(10,000)	(7,867)	(1,639)	471	19,035	--
Net loss	_____	_____	_____	_____	<u>(15,606)</u>	<u>(15,606)</u>
Balances as of June 30, 2002	<u>\$35,000</u>	<u>\$0</u>	<u>\$5,000</u>	<u>\$8,521</u>	<u>\$7,943</u>	<u>\$56,464</u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

1. Purposes and Functions of the Organization

The Santa Clara County Cities Association (SCCCA), an unincorporated association, was established in February 1990 by the cities of Santa Clara County, California. The SCCCA is a joint powers agreement among the member cities and is not a public entity separate from the parties to the agreement. The purposes and functions of the SCCCA are (a) to review, study, develop consensus positions, and recommend on issues of interest to the Santa Clara County cities; (b) to develop a common agenda for Santa Clara County cities; (c) to serve as a unified voice for Santa Clara County cities in relationship to other agencies, organizations, and levels of government, including the Peninsula Division of the League of California Cities; (d) to serve as the City Selection Committee pursuant to Government Code, Section 50270 et seq., and make appointments to regional and local bodies as provided by law; (e) to assist in development of statewide legislative policy through the structure of the League of California Cities; (f) to serve as a source of education, information and networking for officials from all cities in Santa Clara County; and (g) to provide a forum for non-city individuals, groups and organizations, and the private sector to address items of interest to the Santa Clara County cities.

2. Summary of Significant Accounting Policies

- a. The SCCCA's financial statements are prepared using the modified accrual method of accounting. Expenditures are recorded when the liability is incurred. Revenues are recognized when they become both measurable and available.
- b. Revenues for the operation of the SCCCA are primarily provided by the contributions of the member cities.

3. Related Organizations

The SCCCA was formed through a joint powers agreement among the cities of Santa Clara County and was not intended to be a separate public entity. Based on the agreement, the SCCCA does not have the authority to incur any liability binding upon its members or levy any assessment against its members other than the normal dues established pursuant to the agreement.

4. Lease Commitments

The SCCCA occupies office space at the Sunnyvale Office Center at 505 West Olive Avenue, Suite 630, Sunnyvale, California, and pays monthly rent under an annual rental agreement. The monthly office rent is \$440, payable to the City of

Sunnyvale at the beginning of the month. In December 1990, the SCCCA paid \$620 for security deposit and prepaid rent.

5. **Fixed Assets**

Purchases of furniture and equipment exceeding \$500 are recorded as Fixed Assets. The SCCCA uses the straight line method of depreciation.

6. **Change In The General Administrator**

The cities in Santa Clara County created the SCCCA in 1990 to provide a forum for cities to discuss issues of common interest. All fifteen Santa Clara County cities agreed to be dues-paying members of the Association with representatives who meet once a month. The original Agreements provided for the Treasurer of the SCCCA to be the General Administrator, providing accounting and other administrative functions. At the SCCCA's inception, the City of San Jose's Finance Department served as the General Administrator. However, on June 6, 1995, the SCCCA assumed the duties and responsibilities for maintaining its bank accounts and accounting records. Thus, after June 30, 1995, the SCCCA became the General Administrator for its funds.

7. **Investment In The Local Agency Investment Fund**

On October 12, 1995, the Board of Directors of the SCCCA passed and adopted a resolution authorizing the investment of monies in the Local Agency Investment Fund (LAIF) which the California State Treasury administers. As of June 30, 2002, the SCCCA investments in LAIF totalled \$43,971 and are reported at fair value.

8. **Fund Balance Reserves**

In September 1997, the SCCCA adopted a policy to set up certain reserves. As of June 30, 2002, the SCCCA's reserves were as follows:

- A. Reserved for Operations, \$35,000;
- B. Reserved for Technology Advances, \$5,000; and
- C. Reserved for Education/Speakers, \$8,521.



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City Auditor

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April 30, 2003

Board of Directors
Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California 94086

Ladies and Gentlemen:

We have audited the financial statements of the Santa Clara County Cities Association (SCCCA) for the years ended June 30, 2001 and 2002, and have issued our report thereon dated April 30, 2003. In planning and performing our audit of the SCCCA's financial statements, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted a certain matter involving internal control and operations that is presented for your consideration. Our comments and recommendation, which have been discussed with the SCCCA's executive director, are intended to improve the internal control structure or result in other operational efficiencies and are presented in Exhibit A.

Our audit procedures are designed primarily to enable us to form an opinion on the SCCCA's financial statements and therefore may not bring to light all weaknesses in policies or procedures that may exist.

This letter is intended solely for the information and use of the SCCCA's Board of Directors and management.

Gerald A. Silva, CPA
City Auditor

SANTA CLARA COUNTY CITIES ASSOCIATION
EXHIBIT A
Comments and Recommendation

Documentation of Receipting and Invoicing

During our review of the SCCCA's accounting records and supporting documents, we noted that documentation of the receipting and invoicing for the sales of the SCCCA government directory and payments for membership dinners, workshops and other cash receipts was not standardized or easily reconcilable. The accounting software the SCCCA uses includes features that can help the SCCCA consistently document its cash receipts and reconcile them to its cash deposits; however, the SCCCA has not updated its software to the current version.

Recommendation

We recommend the SCCCA contact a software or business systems vendor to determine whether:

- updating to a current version of its accounting software is appropriate and
- whether a receipting and invoicing procedure for the SCCCA's type of cash receipts transactions can be economically implemented.